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HOUSING NEEDS OF THE STATE OF HAWAII

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE VARYING NEEDS AND CONDITIONS IN THE MARKETS ACROSS THE COUNTRY, ESPECIALLY THOSE MARKETS LIKE HAWAII

SEPTEMBER 19, 1990

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CONTENTS

WEDNESDAY, SEPTEMBER 19, 1990

	Page
Opening statement of Senator Dodd	1
Opening statement of Senator Akaka	2
Prepared statement	5

WITNESSES

Donald Tarleton, housing finance branch chief, Hawaii Housing Finance and Development Corporation; on behalf of Joseph K. Conant, executive director, Hawaii Housing Finance and Development Corporation	11
Prepared statement	17
Richard Sakoda, housing information officer, Hawaii Housing Authority	24
Prepared statement	27

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Statement of Gordon M. Arakaki, deputy director, Land and Use Research Foundation of Hawaii	39

HOUSING NEEDS OF THE STATE OF HAWAII

WEDNESDAY, SEPTEMBER 19, 1990

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:40 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Christopher J. Dodd presiding.

Present: Senator Dodd.

Also present, Senator Daniel K. Akaka.

OPENING STATEMENT OF SENATOR DODD

Senator DODD. The committee will come to order. I'd like to welcome all of you here this morning to discuss the unique housing needs of the State of Hawaii. As the conference begins on major housing legislation, Congress obviously must ensure that Federal housing policy effectively addresses the varying needs and conditions in the markets across the country, especially those markets like Hawaii, where the need for housing has truly reached crisis proportions.

I'm going to ask unanimous consent that the balance of my remarks of this opening statement be included in the record so we can get to the business of hearing from our witnesses this morning.

Let me just briefly say that all of us are sensitized to the unique problems that Hawaii faces, unlike any other area of the country. And there's I think an overwhelming sense of need to be cooperative and to be supportive as we deal with those unique problems that the State faces.

The committee is obviously pleased to welcome the presence of the junior Senator from Hawaii, Senator Akaka, who, during his House years as well as the brief time he's been here in the Senate, has reminded all of us on the Banking Committee of how important this issue is and how much it means to his State and the people of his State.

I've had the pleasure of being in his State on a number of occasions. The last time, tragically, at the funeral services of Spark Matsunaga, a dear, dear friend of mine.

But, prior to that time, I've been invited on numerous occasions to come out and participate in various programs of the State. It's a long way for a Connecticut Yankee, but there is a relationship between Connecticut Yankees and Hawaii that goes back a long time.

And I've had a chance to see how important the housing issue is to the State. Dan has reminded me again how much needs to be done in that area.

So, I'm prepared to do whatever I can to be of help on this situation, and I'll listen to the advice and counsel of Senator Akaka and others as how best to proceed on this matter.

I'm confident that my colleagues, both Democrats and Republicans, will be tremendously supportive, as I said a moment ago, with some of the formulas that may require some relief.

Senator Akaka.

And if you'd care to join me up here as we listen to the other two witnesses this morning. And we thank them for coming as well—Don Tarleton and Richard Sakoda. I thank you both for being here as well.

Dan, the floor is yours.

STATEMENT OF DANIEL K. AKAKA, U.S. SENATOR, FROM THE STATE OF HAWAII

Senator AKAKA. Thank you, Senator Dodd, for your comments about our dear, departed friend, Spark, and for your interest in Hawaii and your interest in not only Hawaii but the peoples of the world.

I thank you very much for your chairing this hearing today. I want to thank you and the committee for scheduling these hearings on the problems of high-cost housing in Hawaii. There is no greater need in Hawaii today than that of generating affordable housing.

That's why I'm especially grateful for the opportunity to introduce the testimony of our experts from Hawaii today. I want to thank Don Tarleton and Richard Sakoda, who are appearing as our witnesses from Hawaii today.

Today's hearing comes at a critical juncture. The conferees on the National Affordable Housing Act are preparing to resolve the differences between the House and the Senate-passed bills.

For that reason, I wish to take this opportunity to discuss Hawaii's housing needs and urge the committee to incorporate the State's needs into the conference agreement.

When characterizing the severity of Hawaii's housing plight, numbers speak louder than words. Last month, the median price for a home on Oahu was $392,000. This is an increase of $29,000 since last month; and $116,000 more than the median a year ago.

Based upon these statistics, residents of Oahu must have a monthly income of $8,244 to buy a home. This translates into an annual income of $92,928 a year.

Mr. Chairman, that's more than I make as a Senator. Very few Oahu families can make that much money. It is no wonder that Hawaii's total housing inventory is predominantly rental.

Yet, even rental property is often beyond the reach of some of Hawaii's residents. A nationwide survey on apartment rental costs has identified Honolulu as the most expensive city in the Nation.

A one bedroom, one bath unit—can you imagine—rents for $890 a month. With availability of rental units at a 14-year low, vacancies in Hawaii have dropped to an extraordinarily low rate of 1.5 percent.

By comparison, HUD considers a 5-percent vacancy rate normal. Obviously, Hawaii is faced with a severe housing shortage from the standpoint of both price and availability.

Under these conditions, many people have turned to innovative ways to buy a house. Potential home buyers wait in line for days for the opportunity to purchase an affordable home, sight unseen.

Another game of chance to achieve homeownership is through the State's Affordable Home Lottery. Next month, 184 affordable homes, ranging in price from $89,000 to $120,000, will be placed on the market.

Potential home buyers submit applications, then hope and pray for the luck of the draw.

First and foremost, Mr. Chairman, I urge the committee to address the issue of new construction in the upcoming conference. Under the Senate-passed housing bill, the Housing Opportunity Partnership, HOP, provides the States with funds to meet their housing needs. The most affordable fashion is either through rehabilitation or new construction.

New growth States, such as Hawaii, do not have existing structures in need of rehabilitation. Housing officials in these States recognize that new construction is the most important component of any housing initiative. In Hawaii, for example, the housing authority estimates that 64,000 affordable housing units are needed by the year 2000.

However, at the current rate of 1,500 units per year, it will take 42 years to fill this anticipated housing deficit.

To address this problem, I ask that greater weight be given to new construction rather than rehabilitation in the formula for allocating funds under the HOP program.

Second, I would like to express my strong support of the Senate-approved language on prepayment. Low-cost housing units must be preserved.

Nationwide, there are approximately 360,000 low-income dwellings potentially threatened by prepayment. In Hawaii alone, there are over 1,700 units at risk.

The potential displacement of thousands of families is alarming and wholly unacceptable. The prepayment language which finally passed the House is far superior to the proposal adopted by the House Banking Committee.

The committee provision, better known as the Bartlett-Barnard amendment, would have permitted owners to prepay HUD-subsidized mortgages without HUD review.

No incentives were included for voluntary preservation of these low-income housing units, although this provision was modified during House debate.

The Carper amendment was adopted. This amendment, though still inadequate, includes preservation incentives for owners who continue low- and moderate-income use of the housing project.

These House provisions simply do not afford tenants adequate protection. The prepayment trap is a time bomb ticking away, which threatens to displace thousands of individuals in Hawaii.

Notification of prepayment is not enough. Relocation assistance is not enough. If landlords are permitted to prepay their Govern-

ment mortgage, these tenants will become the next wave of homeless.

We need assurances that basic guarantees for these people will be upheld. Anything less is unacceptable. The administration and our House colleagues believe that bolstering section 8 programs would provide adequate assistance to tenants threatened by prepayment.

However, section 8 certificates and vouchers will not serve as a magic potion for these displaced individuals. Vouchers are almost useless in areas like Hawaii, with the existence of the low vacancy rates.

I also urge you to adopt steps to keep FHA solvent, without impairing the overall success of the program, as well as giving consideration to special no downpayment provisions for the disaster victims from Kilauea volcano. Homes in the Kalapana regions were destroyed and damaged by the lava flows 7 years ago.

Mr. Chairman, as you begin your conference with the House, I urge you to give serious consideration to Hawaii's concerns. We have unusual needs which demand special attention.

I thank you for the time and thank you for the opportunity to voice my opinion on housing in Hawaii.

[The complete prepared statement of Senator Akaka follows:]

STATEMENT BY SENATOR DANIEL K. AKAKA
BEFORE THE
SENATE BANKING SUBCOMMITTEE ON HOUSING
SEPTEMBER 19, 1990

Chairman Cranston, thank you for scheduling this hearing on the problems of high cost housing in Hawaii. There is no greater need in Hawaii today than that of generating affordable housing for those who want to rent or own a home. I am grateful that you recognize the importance of addressing this subject and have called this hearing to receive the testimony of our experts from Hawaii.

Today's hearing comes at a critical juncture. The conferees on the National Affordable Housing Act are preparing to resolve the differences between the House and Senate passed bills. For that reason, I wish to take this opportunity to discuss Hawaii's housing needs and urge you to incorporate the state's needs into the conference agreement.

Every time I return to Hawaii, I witness first-hand the enormity of the housing crisis facing my state. In Hawaii, affordable housing is a misnomer--a nonsequitur, if you will.

When characterizing the severity of Hawaii's housing plight, numbers speak louder than words. Last month, the median price for a home on Oahu was $392,000. This is an increase of $29,000 from the previous month and $116,000 more than the median a year ago. For a condominium, the median price is $200,000, an increase of $35,000 compared to a year ago.

Based upon these statistics, Mr. Chairman, residents of Oahu must have a monthly income of $8,244 to buy a home. This translates into an annual income of $98,928 a year.

Mr. Chairman, that's more than I earn as a United States Senator. Very few Oahu families make that much money. In fact, the medium income is $3,915 per month. It is no wonder that Hawaii's total housing inventory is predominately rental.

Yet, even rental property is often beyond the reach of some Hawaii residents. A nationwide survey on apartment rental costs conducted by the management consulting firm Runzheimer International has identified Honolulu as the most expensive city in the nation. A one-bedroom, one-bath unit rents for $890 a month. A comparable unit in Oklahoma City would rent for $280; in San Francisco the rent would be $658; in Denver $333.

With the availability of rental units at a 14 year low, vacancies in Hawaii have dropped to an extraordinarily low rate of 1.5 percent. By comparison, the Department of Housing and Urban Development considers a 5 percent vacancy rate normal. Obviously, Hawaii is faced with a severe housing shortage from the standpoint of both price and availability.

Under these conditions, many people have turned to innovative ways to buy a house. Potential homebuyers wait in line for days for the opportunity to purchase an "affordable" home, sight unseen. Another game of chance to achieve homeownership is through the state's Affordable Home Lottery. Next month, 184 affordable homes, ranging in price from $89,000 to $120,000, will be placed on the market. Potential homebuyers submit applications, then hope and pray for the luck of the draw.

Housing Opportunity Partnership

First and foremost, I urge you to address the issue of new construction. In the Senate passed housing bill, the Housing Opportunity Partnership (HOP) Act provides states with funds to meet their housing needs in the most affordable fashion--either through rehabilitation or new construction.

New growth states, such as Hawaii, do not have existing structures in need of rehabilitation. Housing officials in these states recognize that new construction is the most important component of any housing initiative. In Hawaii, for example, the housing authority estimates that 64,000 affordable housing units are needed by the year 2000. However, at the current rate of 1,500 units per year, it will take 42 years to fill this anticipated housing deficit. To address this problem, I ask that greater weight be given to new construction, rather than rehabilitation, in the formula for allocating funds under the HOP program.

Prepayment Threat

Second, I would like to express my strong support of the Senate approved language on prepayment. Low-cost housing units must be preserved. Nationwide, there are approximately 360,000 low-income dwellings potentially threatened by prepayment. In Hawaii alone, there are over 1,700 units at risk. The potential displacement of thousands of families is alarming and wholly unacceptable.

The prepayment language which finally passed the House is far superior to the proposal adopted by the House Banking Committee. The Committee provision, better known as the

Bartlett-Barnard amendment, would have permitted owners to prepay HUD-subsidized mortgages without HUD review. No incentives were included for voluntary preservation of these low-income housing units. The House, however, was quick to realize the disastrous outcome of such a policy.

During the House debate, the Carper amendment was adopted. This amendment, though still inadequate, includes preservation incentives for owners who continue low and moderate income use of the housing project. These House provisions simply do not afford tenants adequate protection. Notification of prepayment is not enough. Relocation assistance is not enough.

The prepayment trap is a time bomb--ticking away--which threatens to displace thousands of individuals in my state and hundreds of thousands nationwide. If the owners of these units are permitted to prepay their government subsidized mortgage, their tenants could become the next wave of homeless.

It is estimated that the owners of at least 280,000 units would exercise the prepayment option. This could potentially leave 560,000 people without a home. The Administration and our House colleagues believe that bolstering Section 8 programs would provide adequate assistance to these 560,000 tenants threatened by prepayment. Section 8 certificates and vouchers will not serve as a magic potion for these displaced individuals. They need assurances that they will not end up in the streets. The Senate bill, Mr. Chairman, would provide the necessary assurances.

The Senate bill permits the HUD Administrator to intervene whenever prepayment would result in economic strife or the displacement of tenants. In addition, tenants would be given greater assurances against displacement or eviction. We need assurances that basic guarantees for these people will be upheld. Anything less is unacceptable.

First Time Homebuyers

Third, the Federal Housing Administration (FHA) has been instrumental in providing millions of American homebuyers low interest loans for over three decades. The first quarter of 1990 marked a growing trend of first-time homebuyers using FHA loans--81 percent nationwide. In previous years, 60 to 70 percent of FHA loans were to first-time homebuyers. The Senate FHA proposal will further shift FHA usage to areas facing recession and away from healthier economies.

However, the FHA program is in jeopardy of becoming insolvent. We must consider prudent and fiscally responsible steps to preserve this vital program. When the Housing bill was taken up by the Senate, I spoke in favor of your FHA soundness proposal. Unfortunately, the Administration's language was adopted when attempts to reach a compromise between proposals offered by both bill managers proved fruitless.

Both Houses include FHA provisions that are fiscally sound. The Senate version, however, places undue burdens on the potential borrower. The National Realtors Association and the Mortgage Banker Association estimate that 100,000 potential homebuyers would be unable to buy a home because of the Senate FHA provisions. Applicants for FHA loans often are low- to moderate-income families who are unable to accumulate the down payment required by major lending institutions. In 1981, 18 percent of all FHA loans were greater than or equal to 95 percent of the loan-to-interest ratio. Today, more than 33 percent of individuals using the FHA loan put five percent or less down.

The House bill would provide the needed flexibility to make the FHA program accessible to first-time homebuyers while ensuring the program's fiscal soundness. The House plan would raise FHA's capital reserves by lowering the up-front premium from 3.8 percent to 1.35 percent and adding a 0.5 percent annual renewal fee. Such a proposal would achieve the same 1.25 percent capital-to-insurance ratio as the Senate plan. But more importantly, the availability of FHA loans for low- and moderate-income homebuyers is secured.

Housing Disaster Assistance

Finally, Senator Inouye and I have requested that the Department of Housing and Urban Development's program for no-down-payment loans for disaster victims be included in the House-and-Senate compromise. As you know, the Kilauea volcano on the island of Hawaii has been extremely active the last few years. Many homes in the Kalapana region were destroyed or damaged by the lava flows. Inclusion of this provision would provide invaluable assistance to these homeowners and renters.

In summary, Mr. President, from the perspective of a new growth state, I would like to urge the Senate Conferees to take the following steps to address Hawaii's affordable housing needs:

1. In setting the HOP formula, equal weight must be given to new construction. Rehabilitation is not the answer to Hawaii's housing supply problem.

2. Support the Senate language on prepayment.
3. Keep FHA solvent without creating further encumbrances.
4. Provide relief to Hawaii disaster victims.

Mr. Chairman, as you begin your conference with the House, I urge you to give serious attention to Hawaii's concerns. We have unusual needs which demand special attention.

Senator DODD. Thank you very much, Senator Akaka. Your statement is a very clear, concise way of outlining the problem. The numbers are staggering.

I think Connecticut is a pretty affluent place and housing costs there in some parts of the State are the highest in the country. In Fairfield County, we face a very similar problem there with low vacancy rates. And we've had a lot of corporate headquarters move in to lower Fairfield County.

The irony today is that people in a lot of movies over the years have depicted the commuter that drives from Connecticut into New York. It's now the reverse. Now, because of housing costs and the shortages of rental units, we actually have commuters who leave New York and come to Connecticut to work in the morning. The trains are almost as full running in that direction as they are in the other. And it's all due to housing.

You cannot get the middle-level management or the support staff of these corporations, cannot afford to live in communities where corporate headquarters are built.

So we are sensitive to a similar kind of situation. But, obviously, people in Connecticut have the opportunity, as difficult and painful as it may be, there are areas in our State where you can go and it may increase your commute substantially to have to move.

The difficulty in Hawaii is that you are constrained by the geography. There aren't a lot of places you can move. It's one thing to take a train from one part of Connecticut to the next, or drive your car. It's another thing to have to get into a commuter aircraft and go from island to island.

Obviously, the difficulties you face are far more severe because of those conditions. And I'm again deeply impressed by some of the ideas you have.

You mentioned the HOP legislation. And one of the things I tried to do in that legislation was to increase the amount of flexibility. That created some problems and a lot of antagonism expressed by local housing authorities.

But, the idea was to allow a great deal more flexibility in using funds that were coming in for more diversified housing needs than necessarily housing—authorities wanted to see.

This is the reaction in my own State. It wasn't because I was trying to cut out public housing or to hurt public housing at all. Quite the contrary.

My concern is that there's less and less of an appreciation for public housing, understandably. A lot of constituents we have are working people who are looking for that first-time home. And there's a greater tendency in the political community to respond to that taxpayer than, regrettably, there is to the person who doesn't fall in that category, who falls below that category.

My concern is that, left on its own, the public housing funds would suffer if just naked votes on public housing—regrettably, I hate to report to you my conclusion is that:

Congress would not be supportive, as they should be, of public housing.

So, after the effort at least that I tried to articulate, is to expand and use those HOP's and for particularly the local communities to

make decisions about how best to use those funds to meet local housing needs.

I don't think it is 1960 any longer when you didn't have the sensitivity at the local level on housing. It's quite the reverse. There's a lot more sensitivity on housing today at the local level and far less so here in Washington. That's 180 degrees from where it was 20 years ago, 25 years ago.

And I have a tremendous amount of confidence in local people making good decisions, good housing decisions, and the fact that, in Connecticut, we have—it's a great idea because we have a lot of old stock and it makes a lot of sense to take those three-decker houses, three-family houses, where three generations, it was not uncommon to see them. They were well-built homes back in the 1920's and 1930's. And a modest amount of investment in those places, they become very good investment properties for people.

But, in Hawaii, that's not the issue. It isn't a question where we have a great deal of stock to rehab. It's new housing.

And for me to sit there and say, well, Hawaii must conform to some national standard based on a conclusion that rehab is a better way to go is just a classic example of what happens when we try and set too rigid a policy here in Washington rather than letting those people have the kind of flexibility to be able to use those dollars most effectively, as they see it.

And if they don't do it effectively, you're going to hear far more immediately or far more quickly from your constituencies that we're apt to hear from them. The local housing authority will hear from local constituencies about misdirected priorities.

And, again, I think they're far more sensitive politically to those kinds of claims.

Anyway, I deeply appreciate your comments.

Why don't we turn immediately to the two witness. Then I'll ask you to join me and raise some questions as well.

In any order—Mr. Tarleton.

STATEMENT OF JOSEPH K. CONANT, HOUSING FINANCE BRANCH CHIEF, HAWAII HOUSING FINANCE AND DEVELOPMENT CORP., PRESENTED BY DONALD TARLETON

Mr. TARLETON. Mr. Chairman, thank you for the opportunity to share with you information on the housing needs of Hawaii from the perspective of the State of Hawaii's Housing Finance and Development Corporation.

Briefly, the Housing Finance and Development Corporation is responsible for the financing and development of residential projects and for the administration of the State's residential lease-hold and relocation programs.

Since 1970, the HFDC has participated in the development of over 10,000 for sale and rental units for Hawaii's families. This morning, I would like to provide you with an overview of the housing situation in the State of Hawaii and conclude with specific recommendations for improving the situation from our agency's standpoint.

Hawaii leads the Nation in both owner-occupied and rental housing costs. The median price of a single-family home on Oahu has

risen to $392,000, and the median resale price of a condominium was $200,000.

Given that the HUD established median income for a family of 4 on Oahu is $41,200, and based on certain assumptions on mortgage financing terms and underwriting criteria, it is estimated that a 4 member family can afford to purchase a home priced at $134,000.

Thus, there is an affordability gap of approximately $258,000 and $66,000 with respect to the purchase of a single family home and condominium respectively.

The high cost of for sale housing units accounts for the fact that a large percentage of Hawaii's families are renters. In 1989, the average percentage of homeowners in Hawaii was 41.6 percent, which compares poorly to a nationwide average of 63.9 percent for the same year.

Rents on Oahu are extremely high, with monthly rents for condominiums currently averaging $1,130 and rents for a single family home averaging $1,600.

Needless to say, more and more families are being priced out of the rental market and are being forced to live in shared accommodations, or to become homeless.

A recent survey estimates that between 7,000–8,400 individuals are homeless in Hawaii on any given day. Hawaii's high housing costs can be attributed in large part to the growing shortfall of affordable housing units.

On Oahu, for example, the vacancy rate is currently estimated at 1.5 percent, which essentially reflects that some turnover is taking place. But, there are no vacancies.

The 1.5 percent falls far short of the 5 percent vacancy rate which typically indicates a healthy housing market.

By 1988, statewide housing production had fallen short of demand by an estimated 20,000 units. Further, it was estimated that by the year 2000, a total of 86,000 housing units would be needed to accommodate household growth.

Of this total, approximately 75 percent, or 64,000 units would be needed by low- and moderate-income families.

The need to provide for the rental housing needs of very low and low-income families is of great concern, not only because of the current shortfall, but because it is very difficult to develop units for these income groups without deep subsidies.

A recent attempt was made to define the magnitude of the problem by estimating the number of persons and families that are in need of safe, decent and affordable rental housing. The number of households on such waiting lists for various Government-sponsored rental programs, such as rent subsidy, public housing and privately owned but federally subsidized rental housing, served to approximate the existing rental housing need.

Future demand for rental housing affordable to very low and lower-income households was then estimated using State population projections and census data. As can be seen in the table that is attached to my testimony, total demand for affordable rental housing to the year 2000 is estimated at approximately 35,000 units.

It should be noted that a portion of this affordable housing need is comprised of special need groups, which include the frail, elderly,

the homeless, persons with severe disabling mental illness, single-parent families, abused spouses and children.

The provision for rental housing for these special need groups must be of necessity linked with social, medical and other services for successful operations.

The number of affordable rental units which will actually be developed by the year 2000 is not certain at this time. However, what is certain is that the development of these units will require continued and/or additional government resources.

The State and County governments currently lack sufficient funds to develop an adequate supply of rental housing for very low and lower-income households and special need groups.

Although Hawaii has a number of funding programs to produce affordable homes, the available uncommitted resources fall short of what is actually needed to address the magnitude of the problem.

During the 1980's, Federal housing problems, which were previously the primary funding source for development of rental projects for very low and lower-income households, were significantly reduced.

The production of housing for very low income families came to a near standstill, leading to a drastic increase in homelessness and associated social ills.

Additionally, changes in the Federal tax laws eliminate many incentives for private developers to produce rental housing.

The State of Hawaii has not sat back idly while the housing situation has worsened. Recognizing the seriousness of Hawaii's housing problems, Gov. John Waihee has formed a comprehensive State housing plan which calls for the State to serve as a catalyst for the production of more than 19,000 homes over the next 9 years.

Under the plan, the plan, the HFDC will assume the role of land developer, risk-taker and financier. In the development of major housing projects on the islands of Oahu, Hawaii, Maui and possibly Kauai, large tracts of land will be acquired, master planned and developed in order to provide much needed housing units, the majority of which will be sold or rented at affordable levels.

The first of the master-planned communities is the village of Kapolei, located on the Ewa Plain of Oahu. The project will consist of eight major villages and will eventually provide for a total of approximately 5,000 housing units, including affordable and market units, elderly housing, market and assisted rental housing and special need groups.

Public facilities and support amenities, such as schools, parks, churches, day care centers, commercial rental areas and recreational facilities, will also be developed. A 3,600 master-planned community in Lahaina, Maui is also under construction and ground-breaking for a 4,100 unit planned community in west Hawaii is anticipated for late 1990.

The Governor's comprehensive State housing plan also calls for the increased participation of private developers in the provision of affordable housing. The State now conditions its approval of land use on the provision of a fair share or adequate amount of affordable housing.

As an example, 60 percent of all housing units developed in a residential project.

Alternatively, developers may be able to satisfy their State land use condition through the payment of fees, provision of infrastructure, dedication of improved land or other in lieu arrangements. Although Government and private sector efforts most certainly will contribute to ameliorating the housing situation in Hawaii, continued and/or additional resources are needed for many of the planned projects to materialize.

And, in order to provide housing for the very poor, to this end, we would like to respectfully request your consideration of the following recommendations:

1. Increase federal funding for housing programs and projects for very low and lower-income families. Current HUD allocations for the low-rent public housing programs are sufficient to develop approximately 75 units per year. This is a mere drop in the bucket as compared to Hawaii's overall need.

2. Permanently extend the low-income housing tax credit program. The low-income housing tax credit program is the first program in many years to successfully provide an incentive for private developers to participate any provision of affordable housing.

A permanent extension beyond December 31, 1990 is highly desirable.

3. Adjust low-income housing tax credit allocations for high-cost areas, such as Hawaii. The allocation on the tax credit is currently based strictly on population, not necessarily need or cost of production.

A State having a low cost of production can produce two and maybe even three times as many units per capita as a high-cost State, such as Hawaii.

The present allocation formula does not provide a fair distribution of the credit, and it ignores the need factor. An adjustment to this allocation process should be made for high-cost areas, such as Hawaii, where land costs and the cost of construction is considerably higher than the national average.

Hawaii's allocation for fiscal year 1990 is $1,042,500. Based on our 1990 experience, this would produce 230 units; again, a drop in the bucket when compared to Hawaii's overall housing needs. The fact is Hawaii has not received any applications for its 1990 credit because the subsidy is not deep enough to make a project economically feasible.

The tax credit program allows a 30-percent increase in eligible bases when applying the tax credit in, quote, "difficult development areas."

This seemingly gives something extra for high-cost areas. However, since the extra credit must come from within the State allocation, it actually reduces the number of units that can be produced.

Additionally, the definition of "difficult development area" confines such areas to small portions of each State. It does nothing for States such as Hawaii, wherein, the entire State is a difficult development area.

4. Permanently extend the tax-exempt mortgage revenue bond program. Over the last decade, this program has been threatened with extinction every year or two, with the current target date for extinction being just a few days away. As a result, housing advo-

cates spend significant time and resources prior to each sunset date in an attempt to get the program extended.

This is a waste of time and resources which could otherwise be directed toward solving other housing problems.

This program has proven its value by helping low and moderate-income families purchase their first home, and has contributed significantly toward achieving our national goal of homeownership for its beneficiaries.

In Hawaii, for example, over 5,600 first-time home buyers have been provided below market Hula Mae mortgages since the program's inception in 1980.

We respectfully request that Congress permanently extend authorization for this program.

5. Amend safe harbor limits for tax-exempt mortgage revenue bond programs. These programs throughout the Nation are forced to operate under a plethora of restrictions, among them the purchase price ceiling which specifies the maximum amount of mortgage you can pay for a home and still obtain the low interest rate mortgage they need to qualify for the home purchase.

This form of targeting is reasonable; its application is not. The problem arises when the average area purchase price safe harbor limitations established by the Treasury Department are not reasonably in line with actual market conditions.

For example, in Hawaii, the established purchase price limits for Oahu are $141,030 for new construction, and $141,210 for existing units. Yet, the median resale price for a single-family home on Oahu now exceeds $390,000, or more than twice as much as the purchase price limit.

The result is very few single-family homes on the market that are priced within the limits.

As a result of this wide disparity, HFDC elected to utilize a provision in the Treasury regulations which permits the use of a different limit from the published safe harbor limit if more accurate and comprehensive data can be obtained.

This involves data-gathering, averaging and then applying the required 90 percent. We have done this in Hawaii for sales involving existing homes and have come up with a maximum purchase price of $242,750 for an existing Oahu single-family home.

Such data is not readily available for new construction. It would require a major expenditure of time and resources to gather the data. Therefore, we find ourselves with a difference of over $100,000 between the purchase price ceilings for existing homes and newly constructed homes.

This points out that each State has its own unique problems in applying the rules that govern this program, and we strongly believe that States should be given greater latitude in applying them.

For example, since data for new construction is very difficult to obtain in Hawaii and it appears that there is no wide difference between the purchase price of newly constructed and existing units, why not provide Hawaii with the latitude of fixing the new construction price limit at the existing price limit, or at a reasonable percentage of the existing limit, say, 95 percent?

The main point is that different States should be provided with sufficient flexibility in dealing with different types of inequities

and local problems. Whatever approach is used would then be scrutinized and approved by a recognized bond council to ensure the reasonableness of the approach and to prevent abuses.

An alternative solution would be for the Federal Government to reassess its safe harbor limits on a more timely basis to more accurately reflect actual market conditions.

Thank you again for this opportunity to testify.

[The complete prepared statement of Joseph K. Conant follows:]

HEARING ON THE HOUSING NEEDS OF HAWAII
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

TESTIMONY OF JOSEPH K. CONANT
EXECUTIVE DIRECTOR
HOUSING FINANCE AND DEVELOPMENT CORPORATION
STATE OF HAWAII

Wednesday, September 19, 1990

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to share with you information on the housing needs of Hawaii from the perspective of the State of Hawaii's Housing Finance and Development Corporation.

Briefly, the Housing Finance and Development Corporation is responsible for the financing and development of residential projects, and for the administration of the state's residential leasehold and relocation programs. Since 1970, the Housing Finance and Development Corporation (which was a part of the Hawaii Housing Authority until 1987) has participated in the development of over 10,000 for-sale and rental units for Hawaii's families.

This morning, we would like to provide you with an overview of the housing situation in the State of Hawaii and conclude with specific recommendations for improving the situation from our agency's standpoint.

Hawaii leads the nation in both owner-occupied and rental housing costs. As of August 30, 1990, the median price of a single family home on Oahu had risen to $392,000, and the median resale price of a condominium was $200,000. Given that the HUD established median income for a family of four on Oahu is $41,200 (and based on certain assumptions on mortgage financing terms and underwriting criteria), it is estimated that a four-member family can afford to purchase a home priced at $134,000. Thus, there is an affordability gap of approximately $258,000 and $66,000 with respect to the purchase of a single family home and condominium, respectively.

The high cost of for-sale housing units accounts for the fact that a large percentage of Hawaii's families are renters. In 1989, the average percentage of homeowners in Hawaii was 41.6, which compares poorly to a nationwide average of 63.9 percent for the same year.

Rents on Oahu are also extremely high, with monthly rents for condominiums currently averaging $1,130 and rents for single family homes averaging $1,604. Needless to say, more and more families are being priced out of the rental market, and are being forced to live in shared accommodations or to become homeless. A recent survey estimates that between 7,000 and 8,400 individuals are homeless in Hawaii on any given day. Further, in any given week, between 7,900 and 9,400 individuals are estimated to be homeless statewide.[1]

Hawaii's high housing costs can be attributed in large part to the growing shortfall of affordable residential units. On Oahu, for example, the vacancy rate is currently estimated at 1.5 percent, which essentially reflects a turnover of units but no vacancies. The 1.5 percent falls far short of the 5 percent vacancy rate which typically indicates a healthy housing market.

By 1988, statewide housing production had fallen short of demand by an estimated 20,000 units. Further, it was estimated that by the year 2000, a total of 86,000 housing units would be needed to accommodate household growth. Of this total, approximately 75 percent or 64,000 units would be needed by low- and moderate-income families.

The need to provide for the housing needs of very low- and lower income families (those earning 80 percent of the median income and below, or $32,960 for a family of four on Oahu) is of grave concern, not only because of the current shortfall, but because it is very difficult to develop units for these income groups without deep subsidies. A subcommittee recently attempted to define the magnitude of the problem by estimating the number of persons and families that are in need of safe, decent and affordable rental housing.[2] The number of households on waiting lists for various government-sponsored rental programs such as rent subsidy, public housing and privately owned but federally-subsidized rental housing served to approximate rental housing need. Future demand for rental housing affordable to very low and lower income households was then estimated using state population projections and census data. As can be seen in the attached table, total demand for affordable rental housing (existing plus future demand) to the year 2000 is estimated at approximately 35,000 units. (It should be noted that a portion of this rental housing need is comprised of special need groups which

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[1]SMS Research & Marketing Services, Inc. prepared for the Hawaii Housing Authority, Hawaii's Homeless, July 2, 1990.

[2]Subcommittee of the State Housing Functional Plan Advisory Committee, which was formed to respond to House Concurrent Resolution No. 92, House Draft 1, entitled "Urging the Hawaii State Functional Plan for Housing be Amended by Amending the Definition of Affordable Housing". A draft report and addendum to the State Housing Functional Plan (dated September 12, 1990) have been prepared by the subcommittee for the Governor's review and approval.

include the frail elderly, the homeless, persons with severe disabling mental illness, single-parent families, abused spouses and children, and pre-parolee prison inmates. The provision of rental housing for these special need groups must by necessity be linked with social, medical and other services for successful operations.

The number of affordable rental units which will actually be developed by the year 2000 is not certain at this time. However, what is certain is that the development of these units will require continued and/or additional government resources.

The State and County governments currently lack sufficient funds to develop an adequate supply of rental housing for very low and lower income households and special need groups. Although Hawaii has a number of funding programs to produce affordable homes, the available uncommitted resources fall short of what is actually needed to address the magnitude of the problem.

During the 1980's, federal housing programs, which were previously the primary funding source for development of rental projects for very low and lower income households, were significantly reduced. The production of housing for very low income families came to a near standstill, leading to a drastic increase in homelessness and associated social ills. Additionally, changes in the federal tax laws eliminate many incentives for private developers to produce rental housing.

The State of Hawaii has not sat back idly, while the housing situation has worsened. Recognizing the seriousness of Hawaii's housing problems, Governor John Waihee has formulated a Comprehensive State Housing Plan, which calls for the State to serve as a catalyst in the production of more that 19,000 homes over the next nine years. Under the plan, the Housing Finance and Development Corporation will assume the role of land developer, risk taker and financier in the development of major housing projects on the islands of Oahu, Hawaii, Maui and possibly Kauai. Large tracks of land will be acquired (if suitable State owned lands are not available), master planned and developed in order to provide much needed housing units, the majority of which will be sold or rented at affordable levels. The first of the master planned communities is the village of Kapolei which located on the Ewa plain of Oahu. The project will consist of eight major villages, and will eventually provide for a total of approximately 5,000 housing units, including affordable and market units, elderly housing, market and assisted rental housing and housing for special needs groups. Public facilities and support amenities such as schools, parks, church/day care centers, commercial/rental areas, and recreational facilities will also be developed.

A 3,663-unit master planned community in Lahaina, Maui is also under construction, and groundbreaking for a 4,100-unit planned community in West Hawaii is anticipated for late 1990.

The Governor's Comprehensive State Housing Plan also calls for the increased participation of private developers in the provision of affordable housing. The State now conditions its approval of land use district boundary amendments on the provision of a fair share or adequate amount of affordable housing; e.g., 60% of all housing units developed in a residential project. Alternatively, developers may be able to satisfy their state land use condition through the payment of fees, provision of infastructure, dedication of improved land, or other in-lieu arrangements.

Although government and private sector efforts will certainly contribute to ameliorating the housing situation in Hawaii, continued and/or additional resources are needed in order for many of the planned projects to materialize and in order to provide housing for the very poor. To this end, we would like to respectfully request your consideration of the following recommendations:

1) **Increase federal funding for housing programs and projects for very low and lower income families.**
Current HUD allocations for the Low-Rent Public Housing Program are sufficient to develop approximately 75 units per year. This is a mere "drop in the bucket" as compared to Hawaii's overall need.

2) **Permanently extend the Low Income Housing Tax Credit Program.**
The Low Income Housing Tax Credit Program is the first program in many years to successfully provide an incentive for private developers to participate in the provision of affordable housing. A permanent extension beyond December 31, 1990 is highly desirable.

3) **Adjust Low Income Housing Tax Credit allocations for high cost areas, such as Hawaii.**
The allocation of Low Income Housing Tax Credits is currently based strictly on population, and not necessarily need or cost of production. A state having a low cost of production can produce two, or maybe even three, times as many units per capita as a high cost state such as Hawaii. The present allocation formula does not provide a fair distribution of the credit and ignores the need factor. An adjustment to this allocation process should be made for high cost areas, such as Hawaii, where land costs and the cost of construction is considerably higher than the national average.

Hawaii's allocation for FY 1990 is $1,042,500. Based on our 1989 experience, this would produce 230 units -- again, a "drop in the bucket" when compared to Hawaii's overall housing need. The fact is, Hawaii has not received any applications for its 1990 credit because the subsidy is not deep enough to make a project economically viable.

The tax credit program allows a 30 percent increase in "eligible basis" when applying the tax credit in "difficult development areas." This seemingly gives something extra for high cost areas; however, since the extra credit must come from within the state allocation, it actually reduces the number if units that can be produced. Additionally, the definition of "difficult development area" confines such areas to small portions of a state. It does nothing for states such as Hawaii, wherein the entire state is a difficult development area.

4) **Permanently extend the Tax Exempt Mortgage Revenue Bond Program.**

Over the last decade, this program has been threatened with extinction every year or two, with the current target date for extinction being just a few days away. As a result, housing advocates expend significant time and resources prior to each sunset date in an attempt to get the program extended. This is a waste of time and resources which could otherwise be directed toward solving other housing problems.

This program has proven its value by helping low- and moderate-income families purchase their first home and has contributed significantly toward achieving our national goal of homeownership for its beneficiaries. In Hawaii, for example, over 5,600 first time home buyers have been provided below-market Hula Mae mortgages since the Program's inception in 1989. We respectfully request that Congress <u>permanently extend</u> authorization for this program.

5) **Amend "safe harbor limits" for Tax Exempt Mortgage Revenue Bond Program.**

Mortgage Revenue Bond programs throughout the nation are forced to operate under a plethora of restrictions, among them the purchase price ceiling which specifies the maximum amount a mortgager can pay for a home and still obtain the low interest mortgage needed to qualify. This form of targeting is reasonable. Its application is not.

The problem arises when the average area purchase price safe harbor limitations established by the Treasury Department are not reasonably in line with actual market conditions. For example, in Hawaii the established purchase price limits (based

on 90% of the safe harbor limits) for Oahu are $141,030 for new construction and $141,210 for existing units. Yet, the median resale price for a single family home on Oahu now exceeds $390,000 or more than twice as much as the purchase price limit. The result is very few single family homes on the market that are priced within the limits.

As a result of this wide disparity, the Housing Finance and Development Corporation elected to utilize a provision in the Treasury Regulations which permits the use of a different limitation from the published safe harbor limitation if more accurate and comprehensive data can be obtained. This involves data gathering, averaging, and then applying the required 90 percent. We have done this in Hawaii for sales involving existing homes and have come up with a maximum purchase price of $242,750 for an Oahu single family home.

Additionally, such data is not readily available for new construction. It would require a major expenditure of time and resources to gather the data; therefore, we find ourselves with a difference of over $100,000 between the purchase price ceilings for existing and newly constructed homes.

This points out that each state has its own unique problems in applying the rules that govern this program, and we strongly believe that states should be given greater latitude in applying them. For example, since data for new construction is very difficult to obtain in Hawaii and it appears that there is no wide difference between the purchase price of newly constructed and existing units, why not provide Hawaii with the latitude of fixing the new construction price limit at the existing price limit (or at a reasonable percentage of the existing limit, say 95 percent)?

The main point is that different states should be provided with sufficient flexibility in dealing with different types of inequities. Whatever approach is used would then be scrutinized and approved by a recognized bond counsel to ensure the reasonableness of the approach and to prevent abuses.

An alternative solution is for the federal government to reassess its safe harbor limits on a more timely basis to more accurately reflect actual market conditions.

Thank you again for this opportunity to testify.

Attachment

ESTIMATED RENTAL DEMAND FOR VERY LOW AND LOWER INCOME HOUSEHOLDS TO THE YEAR 2000

DEMAND	OAHU	HAWAII	KAUAI	MAUI	STATE
Current shortfall*	12,300	2,600	400	1,200	16,500
Future demand (1990-2000)**	9,200	4,500	1,700	3,200	18,600
Total estimated rental need	21,500	7,100	2,100	4,400	35,100

* Based on waiting lists for the (1) State and County administration Section B Existing Housing Voucher and Certificate Programs; (2) State Rent Supplement Program; (3) public housing and other affordable rental projects administered by the Hawaii Housing Authority and the counties; and (4) privately owned, federally subsidized projects such as those developed under the Section 221 (d)(3) mortgage insurance program.

Total applications on the various waiting lists have been adjusted by 25% to account for duplication. Although it may appear more appropriate to discount total applications by 50% to account for the large number of households who may be on 2 or more waiting lists, 25% was used since there may be an equally large number of eligible households who are not on any waiting list.

** Based on the projected number of very low and lower income households. (New household formation estimates are based on the State's M-K population projections. Assumes (1) 4% of the population will reside in group quarters; (2) an average household size of 2.9; and (3) the number of future households in the very low and lower income groups are proportionate to present estimates.

Senator AKAKA [Presiding]. Thank you very much, Don Tarleton of the Housing Finance and Development Corporation.

At this time, we would like to hear from Richard Sakoda, housing information officer of the Hawaii Housing Authority.

Following his testimony, there will be some questions to both of you.

You may proceed.

STATEMENT OF RICHARD SAKODA, HOUSING INFORMATION OFFICER, HAWAII HOUSING AUTHORITY

Mr. SAKODA. Senator Akaka, thank you for giving me this opportunity to testify before the committee.

As far as Hawaii is concerned, the key word is flexibility. Briefly, the Hawaii Housing Authority was officially reorganized pursuant to Act 337 on August 5, 1988. But, the reorganization of HHA refocused on the agency's energy on the operation of State and Federal housing projects, the delivery of management support services and rental housing opportunities to eligible families and contract administration of housing projects which are federally subsidized but privately owned.

The Hawaii Housing Authority has a staffing authorization of 273 personnel and currently operates with 221 employees statewide. There are a total of 6,314 units currently administered by the Hawaii Housing Authority.

Additionally, HHA provides rental opportunities for section 8, which is 1,728 units—vouchers—109 units, and rent supplement—1,050 units.

These programs assist individuals and families with rental payments.

Senator, these are some of the comments:

Number one, Federal moneys for new construction of low-rent public complexes. Hawaii is reported to have one of the tightest rental markets in the Nation at an average rental rate that is at least 40 percent above the national average.

The tight rental market can be attributed to a number of factors, the keys being:

One, severe cutback in Federal funding for low-rent public housing.

Two, cessation of Federal section 8 new construction programs which provided rental subsidies to encourage private sector production of affordable rental housing.

And, three, the passage of the Tax Reform Act of 1986, which eliminated many of the incentives available to private investors desiring to develop or rehabilitate rental housing complexes.

As the rental market has tightened, the demand for HHA's rental housing and rental assistance programs has increased.

There are currently over 7,000 applications for Hawaii housing programs.

Due to the limited Federal funding, HHA has been unable to keep pace with the growing demand. For example, between fiscal year 1982 and fiscal year 1984, 873 low-rent housing units were developed under either the Federal Low-Rent Public Housing Program or the HUD section 8 New Construction Program.

This compares with 48 new low-rent units developed between fiscal year 1985 and fiscal year 1988.

To meet the growing need for more affordable rentals, we ask you to commit substantial amounts of money for the development of low-rent public housing complexes for lower-income families to the section 8 program.

During the period, September 1, 1989 to August 30, 1990, 758 section 8 certificates were issued through the Hawaii Housing Authority—437 or 58 percent of these were canceled. And 100 section 8 vouchers were issued through HHA and 23 or 23 percent were canceled.

A major reason for the return or cancellation of section 8 certificates is the unrealistically low fair market rents set by HUD for Hawaii. Until these figures are increased, the section 8 program will continue to be under utilized and substantial numbers of individuals are unable to find rental housing falling within the HUD-set fair market rents.

Fair market rents need to be adjusted upward for Hawaii. This would help alleviate the burden on very low-income individuals. By allowing your participation in the section 8 program, this should not detract from the need for new low-rent units in Hawaii. Section 8 is not the solution for Hawaii's rental needs, although it helps alleviate the burden on various individuals.

Three, resident ownership of low-rent housing. Because Hawaii has a crying need for additional low-rent units, any sale of public housing complexes to residents must be accompanied with Federal funding for new construction. We ask that replacement units be funded if the homeownership program is implemented.

Four, equitable distribution of Federal funds. Any program favoring funding for older housing complexes would have an inequitable impact on Hawaii, whose low-rent housing stock is relatively young and whose greater need is instead for new construction moneys.

For this reason, we ask that Hawaii's need for new construction moneys for low-income housing be considered when any decision impacting or concerning distribution of Federal funds is made and that Congress provide Hawaii with her fair share of Federal funds.

Five, construction costs for new low-rent units. As an example, the amount per unit allowed by HUD for new construction costs needs to be raised for Hawaii. For example, a low-rent complex on the Island of Molokai being built with Federal funds is set at approximately $100 per square foot. This per unit cost, which also includes site preparation costs, is clearly insufficient.

Accordingly, State funding will be needed to be allocated for purposes of covering the site improvement costs in order to work within the HUD guidelines.

In comparison, a recent project for the elderly on the Island of Oahu was built at the cost of approximately $168 per square foot, and this did not include site preparation costs.

As an aside issue, the issue of military housing, another measure that would relieve part of the problem would be to have more military housing on military bases. Due to the lack of base military housing, many units in the private sector are being utilized by military personnel. Accordingly, freeing many of these units being uti-

lized by military personnel would help to free up rental units in the private sector.

Thank you.

[The complete prepared statement of Richard Sakoda follows:]

JOHN WAIHEE
GOVERNOR

MITSUO SHITO
EXECUTIVE DIRECTOR

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HAWAII HOUSING AUTHORITY
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IN REPLY REFER TO:

PRESENTING TO THE SENATE SUBCOMMITTEE ON
HOUSING AND URBAN DEVELOPMENT

RICHARD M. SAKODA
HOUSING INFORMATION OFFICER
HAWAII HOUSING AUTHORITY
STATE OF HAWAII

Wednesday, September 19, 1990

The Honorable Senator Cranston and members of the Subcommittee. Thank you for giving me the opportunity to testify before your committee.

My name is Richard Sakoda, speaking on behalf of Mitsuo Shito, Executive Director of the Hawaii Housing Authority.

The Hawaii Housing Authority was officially reorganized pursuant to Act 337 (1987) on August 5, 1988. The reorganization of HHA re-focused the agency's energy on the operation of State and Federal housing projects, the delivery of management support services and rental housing opportunities to eligible families, and contract administration of housing projects which are federally subsidized but privately owned.

subsidies to encourage private sector production of affordable rental housing; and

(3) the passage of the Tax Reform Act 1986, which eliminated many of the incentives availabe to private investors desiring to develop or rehabilitate rental housing complexes.

As the rental market has tightened, the demand for HHA's rental housing and rental assistance programs has increased. There are currently over 7,000 applications for HHA's programs.

Due to the limited federal funding HHA has been unable to keep pace with the growing demand. For example, between FY 1982 and FY 1984, 873 low rent housing units were developed under either the federal low-rent public housing program or the HUD Section 8 New Construction program. This compares with 48 new low-rent units developed between FY 1985 and FY 1988.

To meet the growing need for more affordable rentals, we ask you to commit substantial amounts of money for the development of low-rent public housing complexes for lower income families (those earning 80% or less fo the area median

income) is nearly impossible without the provision of very heavy subsidies.

2. Section 8 Program

During the period September 1, 1989 to August 30, 1990, 758 Section 8 certificates were issued through HHA; 437 or 58% of these were canceled; and 100 Section 8 Vouchers were issued through HHA; and 23 or 23% were canceled.

A major reason for the return or cancellation of Section 8 certificates is the unrealistically low fair market rents set by HUD for Hawaii. Until these figures are increased, the Section 8 program will continue to be underutilized as substantial numbers of individuals are unable to find rental housing falling within HUD set fair market rents.

Fair market rents need to be adjusted upward for Hawaii. This would help alleviate the burden on very low income individuals by allowing their participation in the Section 8 program. This should not detract from the need for new low rent units in Hawaii. Section 8 is not the solution

The Hawaii Housing Authority has a staffing authorization of 273 personnel and currently operates with 221 employees statewide. There are a total of 6,314 units currently administered by HHA. Additionally, HHA provides renters opportunities for Section 8 (1,728 units), Vouchers (109 units), and Rent Supplement (1,050 units) programs. These programs assist individuals and families with rental payments. The Authority has a decision-making commission comprised of 8 commissioners.

1. Federal Moneys for New Construction of Low-Rent Public Complexes

Hawaii is reported to have one of the tightest rental markets in the nation (almost 99% occupancy) and an average rental rate that is at least 40% above the national average. The tight rental market can be attributed to a number of factors, the keys being:

(1) severe cutback in federal funding for low-rent public housing;

(2) the cessation of the federal Section 8 New Construction Program, which provided rental

for Hawaii's rental needs although it helps alleviate the burden on various individuals.

3. Resident Ownership of Low Rent Housing

Because Hawaii has a crying need for additional low rent units, any sale of public housing complexes to residents must be accompanied with federal funding for new construction.

We ask that replacement units be funded if the homeownership program is implemented.

4. Equitable Distribution of Federal Funds

Any program favoring funding for older housing complexes would have an inequitable impact on Hawaii whose low rent housing stock is relatively young and whose greater need is instead for new construction moneys.

For this reason we ask that Hawaii's need for new construction moneys for low income housing be considered when any decision impacting or concerning distribution of federal

funds and is made and that Congress provide Hawaii with her fair share of federal funds.

5. New Construction Costs For Low Rent Units

The amount per unit allowed by HUD for new construction costs needs to be raised for Hawaii; for example, a low rent complex on the island of Molokai being built with federal moneys is set at approximately $100.00 per square foot. This per unti cost which also includes site prepareation cost is clearly isufficient. Accordingly, State funding will need to be allocated for purposes of covering the site improvement cost in order to work within the HUD guidelines.

In comparison, a recent project for the elderly on the island of Oahu was built at a cost of approximately $168.00 per square foot and this did not include site preparation cost.

6. Military Housing

Another measure that would relieve part of the problem would be to have more military housing on military bases. Due

to the lack of base military housing, many units in the private sector are being utilized by military personnel.

Accordingly, freeing many of these units being utilized by military personnel would help to free up rental units in the private sector.

Senator Dodd [presiding]. Thank you very, very much, both of you, for your testimony.

Let me ask both of you how you believe that Hawaii's housing problems would be affected by the various FHA proposals that are now under consideration in Congress?

Mr. TARLETON. Mr. Chairman, my agency is concerned primarily with new production and financing. Mr. Sakoda's agency is primarily dealing with HUD programs. I think that would be properly responded to by him.

Senator DODD. We don't need to have you constrained by the parameters of your jurisdiction. You have some good observations.

But, go ahead, Mr. Sakoda.

Mr. SAKODA. Mr. Chairman, I think, as I told Senator Akaka, I think, as long as the HUD programs allow Hawaii to determine, as you mentioned in your earlier statement, I think that is the key with regard to Hawaii.

Referring to the prepayment issue, I think Hawaii would be devastated if developers were allow to prepay their mortgages. This would have an extremely detrimental effect on the amount of housing units available. Considering the tight housing situation in Hawaii right now, many of these people would not be able to afford these houses.

In terms of allocating Federal funds for renovation units, I think, because of Hawaii's situation, the money would be better spent on new construction costs.

Senator DODD. Do you want to hop on this, Mr. Tarleton? Do you agree with that?

Mr. TARLETON. Yes, particularly with the prepayment issue. It's a very great concern. About 3 weeks ago, I attended a meeting of tenants. These tenants were occupants of an apartment building that is being converted from rental to ownership.

There are about 50 or 60 tenants who were unable to purchase and were being forced to go out and seek other lodging. And they're going into a market where there just is nothing available.

So, these people are basically forced into a position of going in with other families who are already overcrowded, in which case, they will require dividing up family members into different households, or going to live on the street or the beach. It's very sad.

Senator DODD. You mentioned, Senator Akaka did, the HOP program. Again, part of our bill, the Senate bill, was the HOP program to presupply affordable housing by building on some of the innovative partnerships that exist with State and local governments, private industry and the nonprofits.

That may be where our best hope lies given the fiscal constraints and so forth that we're all operating under.

Maybe you both might share with the committee what are some of the innovative ideas that are kicking around in your State. Just even the ones that exist, the ones you're thinking about—we'd be interested in hearing what creative people in Hawaii are coming up with as ideas, at least at the local level, to try to deal with some of these questions.

Mr. TARLETON. Mr. Chairman.

Senator AKAKA. Mr. Chairman, may I comment to you that Hawaii's problem really mirrors the inner cities. That's why, as Mr.

Sakoda mentioned, flexibility as to how we use federal funds; whereas, you had emphasized rehabilitation, we need new construction incentives, as Don Tarleton mentioned.

I also want to make a comment that the best way to achieve solvency, the conferees on the housing bill now have before them two different FHA proposals, both would secure the future of FHA funding.

In fact, both provisions achieve the suggested 1.25 percent capital to insurance ratio.

However, the House-adopted provision, which you originally introduced in the Senate, makes more sense. FHA loans have made the dream of homeownership a reality for millions of low and moderate income families. Unlike the Senate bill, the House bill would preserve the low downpayment option of the current program while ensuring the fiscal soundness of the plan.

Adoption of the Senate language would effectively do away with this valuable option. People who already are having a difficult time scraping together the downpayment would be required to provide more cash up front.

As a result, the American Dream would remain just a dream for many. Housing costs in Hawaii are already prohibitive. As a result, even with FHA loan ceilings of $180,000, Hawaii is unable to participate in the fund.

And I hear this coming through your statements today. We certainly need to effect this legislation. My hope is that your testimonies today will be helpful in bringing that about.

Senator DODD. I agree.

Do you want to comment on some of the things we were talking about?

Mr. TARLETON. Yes. The State of Hawaii has developed a number of programs that are working well in terms of reducing the cost of housing. We are, unlike probably most other States, we are in the housing development business and we are able to sell homes in a price range anywhere from $90,000 to $140,000.

Those are the only units that are affordable to families in the median income range. But, there are two rental programs I would like to specifically mention that we have implemented.

One, we call it a rental housing system. Since the private sector is no longer involved in rental development or ownership in Hawaii, the State has gotten in the business of owning and operating rental housing.

We are very actively pursuing new construction there. One of the key ingredients, of course, is equity. We can only borrow so much, as much as the revenues from the project will serve us. The rest we have to come up with in the form of equity.

That's very difficult for a State with our limited resources. So we're always looking for equity sources.

The other key ingredient is subsidies for the tenants. And there we would really appreciate anything that we could receive in the way of section 8 certificates.

Senator DODD. You know, one of the things we did in Connecticut is we used the pension funds. We made them available to State employees. They had the first refusal, since it was their funds anyway.

But, given the number of governmental employees in the State of Hawaii, again, I presume the number of State employees is not as high as Federal, due to the tremendous presence of the Federal Government in the State.

Have you done anything like that in the State?

Mr. TARLETON. Yes. We have been able to work with the pension fund, and they have been very helpful to us.

Senator DODD. Mr. Sakoda, any additional comments?

[No response.]

Senator DODD. Dan, do you have any comments you would like to make?

Senator AKAKA. To Rich Sakoda, the fair——

Senator DODD. I want to apologize to both the witnesses here. I've got an 11:30 press conference for Save The Children. That's been scheduled several weeks ago.

So, I apologize to both of you. I'm going to turn the remainder of the hearing over to Senator Akaka.

Let me just thank both of you for coming the long distance here to talk about this. We'll do whatever we can to be of help.

Again, Senator Akaka has been what I suppose you might call a pest on Hawaii. That's what he's supposed to be. And talking about the housing problems.

So, with an advocate like that, you can't go wrong. And we'll do everything we can to be of help, but it's a pleasure to work with Dan.

Senator AKAKA. Before you do that, may I make a statement for the chairman here?

I want to thank you, Don, for your statement, and I want to thank you for your suggestion to permanently extend the low-income housing tax credit and tax credit mortgage revenue bonds program.

I intend to introduce legislation to make these programs permanent. And I'm going to do it next week.

Senator DODD. Let me know if I can be of help to you.

Senator AKAKA. Thank you very much.

Senator DODD. And I apologize. And I'll give you this gavel. Just don't pass the legislation at the first gavel. [Laughter.]

Senator AKAKA [presiding]. I ask that all of your testimony in its entirety be included in the record.

And also, Don, I want you to carry back my best regards to Joe Conant when you get back home.

Let me return to my question, to Mr. Sakoda.

Fair market rent value for a two bedroom unit is $800. Yet, a one-bedroom, one bath apartment rents for $890 on Oahu.

How does this disparity affect Hawaii and how do families receiving Federal assistance afford adequate shelter?

Mr. SAKODA. Well, Senator, it puts an extreme burden on the families to make due. We think of many families that have to live together with other families in order to make the rent.

Also, it puts an extreme burden on Hawaii.

Senator AKAKA. To make programs more applicable to Hawaii, Mr. Sakoda, fair market rent value must be adjusted upward.

What would you consider a reasonable adjustment figure?

Mr. SAKODA. I think, again, the key word is flexibility. If the local HUD office could have the flexibility to adjust fair market value to what would be acceptable to Hawaii's fair market rent, that would probably be the best thing we could do in that situation, rather than having an actual adjustment.

Senator AKAKA. In your testimony, you mentioned an overwhelming percentage of 58 percent of all section 8 certificates issued are returned. I think you partially explained it.

Can you explain that further?

Mr. SAKODA. I think a part of the problem is reluctance of developers to rent to section 8 recipients. But, I think, more importantly, it's just the limited number of apartment units available.

Senator AKAKA. Section 8 projects have the lower return rate. What percentage of the family's income in addition to the voucher subsidy is absorbed by rentals?

Mr. SAKODA. Senator, that number is very large. I would have to get back to you as to the exact percentage.

Senator AKAKA. Mr. Tarleton, as an expert on Hawaii housing, what percentage of those displaced by prepayment would be likely to find housing?

Mr. TARLETON. That's a difficult question to answer. But, in this most recent example that I mentioned earlier, there were 119 units in this apartment complex and approximately 50 of them are being forced out to seek other apartment units.

And there are just none out there. So, these approximately 50 families are going to have to move in with their relatives, or else move to the beach.

Senator AKAKA. What do you consider to be the most effective affordable housing supply program?

Mr. TARLETON. I think our rental housing system is probably the most effective program that the State has initiated. And, through that, we are able to produce rapidly new rental units.

As I mentioned earlier, the real constraints are on equity funding. And the State has limited resources for equity.

The other thing that we need is section 8 because without having section 8 certificates available to tenants, we cannot generate the necessary revenues to cover the cost of construction.

Senator AKAKA. Under the Senate bill, States would receive a minimum of 40 percent of the HOP funds. States would be required to match grants; for every $4 in Federal tenant-based assistance, the State must match one.

However, funds used for new construction must be matched by the State 2 to 1. How does this affect Hawaii?

Mr. TARLETON. As I indicated earlier, our thrust has to be toward new construction; since we really have no buildings to rehab, we are really strong for new construction. Matching funds on a 2 to 1 basis for new construction would put a real strain on the resources of the State. We would really like to have a much higher multiple, such as a 4 to 1. But, a 2 to 1 is better than what we have now.

Senator AKAKA. Is it correct to assume that the Hula Mae program is one of the most successful loan programs?

Can you tell me why?

Mr. TARLETON. That has been very successful. The program is entirely self-supporting. It has helped over 5,600 first-time families purchase their first home. It's a unique system of financing that I say is self-supporting. In fact, it does throw off a small amount of excess revenues. In Hawaii, we have been able to channel those excess revenues into mortgage loans for areas in which mortgage insurance is not otherwise available and can make loans in these areas where other loans are not otherwise available.

So it has been very beneficial to Hawaii.

Senator AKAKA. The fate of the mortgage revenue bond program and low-income housing tax credit is in the hands of the budget conferees. Would the loss of these two programs have a significant impact on Hawaii?

Mr. TARLETON. Yes. With regard to the Mortgage Revenue Bond Program, it would mean there are a lot of families out there who would continue to be renters. They would not have the opportunity to purchase a home at all.

With regard to the tax credit, as I testified, we have no outlets for the tax credit for our 1990 allocation. It simply does not provide a sufficiently deep subsidy to cover the cost of construction, since it is so great in Hawaii.

So, I would have to say at the moment that if that program died, it would not be harmful to Hawaii, but what we would much prefer to see is a permanent extension of the program and to have the program modified so it's something that we can use and that would provide low-income housing in Hawaii.

Senator AKAKA. Thank you both very much for your testimony. It will be helpful to us and to the conferees. Today's hearing record will be very valuable.

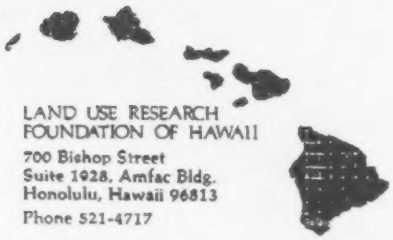
As the housing bill goes to conference, I intend to take your suggestions and recommendations and work with my Senate colleagues on solutions which will address our special needs and give you the flexibility you need.

I know that the housing problem is probably one of our greatest needs in Hawaii presently. And the effort you are making and you will be making will be of great help to Hawaii and the Nation in its housing problems.

Again, thank you for your testimony.

If there are no further questions or comments, then the committee stands in adjournment.

[Whereupon, at 11:40 a.m., the committee adjourned, to reconvene subject to the call of the Chair.]



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"THE HOUSING NEEDS OF HAWAII"

HEARING BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN DEVELOPMENT

TESTIMONY OF GORDON M. ARAKAKI
DEPUTY DIRECTOR
LAND USE RESEARCH FOUNDATION

Wednesday, September 19, 1990

Mr. Chairman and Members of the Subcommittee:

While affordable housing is a critical problem throughout the United States, it is especially acute in Hawaii. Hawaii's housing problems are unique; solutions to those problems must likewise be unique.

The Land Use Research Foundation of Hawaii is a private, non-profit, research organization comprised of major Hawaii landowners and developers. The goal of our organization is to foster sensible land use planning and responsible development in the State. This is achieved through better understanding and communication among the various sectors that make up Hawaii's community (government, business, and general public), and a commitment to improving the processes of land use planning, government regulation, and property development. The Foundation believes that quality land development provides an essential service for Hawaii's people and is critical to a healthy economy for our State. It is from this perspective that we address you today.

Hawaii's Housing Costs

As of August 30, 1990, the median price of a single family home on Oahu reached $392,000, and the median resale price of a condominium reached $200,000. Considering that the median house price on Oahu in 1988 was $225,000, the price of a home in Hawaii will come close to doubling in the span of two years.

Because of our high cost of housing, the average percentage of homeowners in Hawaii in 1989 was 41.6%; the nationwide average was 63.9%.

Rents in Hawaii are also high. On Oahu, monthly rents for single family homes are averaging $1,604, and condominiums are averaging $1,130.

Hawaii's Housing Problems

A shortage of residential units, for sale and for rent, drives the skyrocketing costs of housing in Hawaii. The shortage of units is caused by a number of factors, including: the shortage of properly designated lands; the high cost of infrastructure, which is usually spread among the buyers of a new development; the lengthy government approvals process, which reflects the public's basic ambivalence about development; and the high carrying costs associated with seeing a project through the six to seven year government approvals process.

What the Federal Government Can Do

The Foundation believes that Hawaii's special situation should be recognized by the federal government in the following ways:

1) The Low Income Housing Tax Credit Program should be permanently extended. During the past decade, changes in federal tax laws eliminated many incentives for private developers to produce rental housing. The Low Income Housing Tax Credit Program is the first program in many years that successfully provides an incentive for private developers to participate in the provision of affordable rental housing. The Program, which expires on December 31, 1990, deserves a permanent extension.

2) The Low Income Housing Tax Credit Allocations should be adjusted for high cost areas such as Hawaii. Low income tax credit allocations are currently based on population. The allocations process should be adjusted for high cost areas, such as Hawaii, where the costs associated with land and the cost of construction are considerably higher than the national average. This would result in a fairer distribution of the tax credit.

3) Federal funding for housing programs for low income families should be increased. The development of affordable rental units requires additional government resources. It is properly a cost that should be shared by society as a whole.

4) The Tax Exempt Mortgage Revenue Bond Program should be permanently extended. In Hawaii, over 5,600 low and moderate income first time buyers have been provided with below-market Hula Mae mortgages since its inception. It is a proven, valuable program that deserves to be permanently extended.

5) The Safe Harbor Limits for Tax Exempt Revenue Bond Programs should adjusted to allow Hawaii's administrative agency sufficient

flexibility to reflect actual market conditions. In Hawaii, the average area purchase price safe harbor limitations established by the Treasury Department do not reasonably reflect actual market conditions. Because of this, very few homes on the market are priced within the limits. Hawaii's administrative agency should be given sufficient flexibility to deal with this inequity.

Thank you for giving us the opportunity to comment on this matter. Please feel free to write us at the address listed above or call us at (808) 521-4717 if you have any questions.

Sincerely,

Gordon M. Arakaki

Gordon M. Arakaki
Deputy Director